City of Detroit

CITY COUNCIL

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TO: The Honorable City Council

FROM: David Whitaker
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DATE: April 3, 2006

RE: **THE HOME AGAIN INITIATIVE**

At the Honorable City Council's request, the Research & Analysis Division (RAD) was asked to investigate and report on the Washington D.C. program known as the Home Again Initiative.

I. SUMMARY

The Home Again Initiative was created with the collaborative efforts of the Mayor's office, City Council and the Department of Planning & Economic Development to address the presence of vacant and abandoned property in the District of Columbia (District). It allows for pre-qualified developers to bid on parcels of properties owned by the District for rehabilitation or new construction. The final contract allows for one year to complete the renovations and allows for some municipal input on the sale price of the home. The Initiative has had difficulty obtaining parcels of land for sale due to a lack of inventory. Another important program provision is that at least 30% of the renovated homes must be made to low or moderate-income families. The program was created in January of 2002, but has been restricted by the lack of available properties.

II. BACKGROUND

The Initiative is a program designed and implemented by the Office of the Deputy Mayor for Planning and Economic Development created by authority provided in The Housing Act of 2002. The primary goal of the program is to reduce the number of vacant and abandoned properties in the District. Under the program, at least 30% of the homes are required to be made available to low and moderate-income families (>60% Washington Area Median Income). The developers are also encouraged to make homes available to workforce families (61-100% median D.C. income). To date, the program has awarded over 150 properties to qualified developers for new construction, rehabilitation or renovation.

The criteria for neighborhood selection include identifying the neighborhoods with the greatest concentration of vacant and abandoned properties and examination of the Strategic

Neighborhood Action Plan (SNAPs) of the particular communities that identified elimination of vacant and abandoned properties as a priority. The Initiative identified five communities to initiate the process and the focus of the program has remained in those areas. The District obtains land in the focus neighborhoods for use in the Initiative by tax foreclosure, friendly acquisition, or eminent domain. The majority of the properties are obtained through tax foreclosures. It should be noted that seventeen (17) clear titles have been gained through eminent domain proceedings. The city is currently involved in four additional legal battles to gain clear title.

After the District obtains land parcels they will sort them into different size property bundles. The bundles range in size from 5-20 properties based on their geographic location to one another and their development potential. The varying sizes of bundles also allows for different levels of developers to participate. Request for Proposals are published twice per year for the sale of property bundles. Interested developers apply for pre-qualification by responding to a Request for Qualifications (RFQ), which are then graded on scale of 100 (70 to qualify). The evaluation criteria include: prior experience, financial capability, and inclusion of local and minority businesses, along with the proposed marketing and outreach plans. As of the first quarter of 2006, there are thirty-eight developers qualified to participate in the program.

The qualified for-profit and non-profit developers participate in the competitive bidding process by submitting bid proposals. The developers should detail the estimated timetable for completion, order of properties to be rehabilitated, and at what price they will be sold. The properties can either be renovated or new construction placed on the lots. The Initiative may adjust the sale price to ensure feasible development. The process is based on awarding properties to the most qualified competitive bidder.

The Department of Planning and Economic Development reviews the final proposals and the final sales contract is negotiated with the developer. A reversion clause is part of the final contract allowing for the District to regain control of the site if the contract provisions are not adhered. In order to close on the proposal, the developers are required to have the following:

1. Construction financing in place;
2. Primary building permits;
3. Registered to do business in the District;
4. Current in all taxes owed to the District;
5. Not be in default on any obligation to the District;
6. Sign a Memorandum of Understanding to make a good faith effort to contract with local, small and disadvantaged businesses; and
7. Sign a first source agreement giving priority in new hiring by the developer to District residents.

Discussions with the Home Again Program Director identified key elements critical to the success of the Initiative. Consistency, project management, focused work in a few neighborhoods at a time, and a system for the mechanical disposition of property.

The Department advocated to the District's City Council was that it was trying to create single-family owner occupied properties. The Council moved for special legislation to dispose of properties through the program. The legislation streamlined the disposition approval process and obstacles the developers have to contend with to obtain properties. The importance of frequent dialogue with the development community to solicit their advice in order to make the process more user-friendly was also stressed by the program's administration. The objective is to create an environment where the developers are willing to risk their time and money. The Initiative functions as a one-stop shop for vacant and abandoned property in the District. It places one entity in charge of the whole process so developers know they can go there to find properties in the District's control to dispose of. The properties are renovated without any public subsidy; the developers privately finance all of the projects. The properties are bought and sold at the price point for the private market.

The housing market is "very hot" in the District and the supply of available housing does not meet the demand. Therefore, the department has a lack of inventory due to the lack of district-controlled property available. This creates a situation where properties must be actively pursued. Due to the volume of work needed to acquire and dispose of the properties, there is a great need for dedicated attorneys and staff.

Another benefit of the Initiative is that the District has had more success to get current property owners to update on their own. The lack of property for the program acts as a catalyst for the property owners to rehabilitate on their own. Consequently, it is estimated that three-fourths of properties targeted by the Department have been rehabilitated by owners simply by the threat of eminent domain.

Lastly, the areas of concern that were identified were financial, legal, project management and staffing. The Director advised that the main question to ask is "What causes the lack of interest in our community?" It is essential to have property under city control, incentives and opportunities for the private sector to come in and renovate the properties. The full support of the Mayor and Council is also very important.

The Local Initiatives Support Coalition (LISC) is one of the nation's largest supporters of grassroots community development, encouraging investment in urban and rural affordable housing, as well as neighborhood services. The LISC office in Washington D.C. has funded non-profit groups to renovate property bundles offered through the program and have identified the following obstacles:

1. Fewer properties available than anticipated due to the housing boom;
2. The majority of the newly renovated properties are not affordable to middle class residents; and
3. The issues of clearing legal title to the properties paired with administrative problems have made the program less effective than anticipated. However, the District is in the process of making reforms to streamline the process.

III. ANALYSIS OF LEGISLATION

The District of Columbia enacted numerous pieces of legislation aimed at neighborhood revitalization by encouraging development of new housing, protecting existing affordable housing, promoting the rehabilitation of vacant and deteriorated units, and public education. The three primary goals are: 1) protect existing affordable housing while reducing displacement, 2) converting vacant and dilapidated housing into new housing and 3) promote new housing for people of all income levels.

The following summarizes the key provisions of the: Housing Preservation, Rehabilitation, and Production Omnibus Amendment Act of 2001; Abatement and Condemnation of Nuisance Properties Omnibus Amendment Act of 2000; and the Housing Act of 2002.

- Enhanced ability to demolish deteriorated and abandoned buildings. Clearly defines due process for notification of interested parties prior to demolition and expedites the demolition and barricading process. The District places a lien on the property for the cost of demolition or enclosure. The lien carries an 18% interest rate and a tax sale can be held if the lien is not satisfied within two years. The mayor can forgive up to one-half of the outstanding taxes owed on the property if it is sold to a low-income household or developed into affordable units. Vacant properties are required to be maintained in compliance with the District's Housing Code. That provision, coupled with the 18% interest on the District's liens, is designed to encourage more rapid rehabilitation of deteriorated units.

- Improvement of the governments' and tenants' abilities to preserve affordable housing when the owner of a federally subsidized apartment building "opts-out" to convert the buildings to market rate or sell them. A requirement already exists for federal government notification; the modification requires them to notify the District government and the tenants at least one year prior to "opting-out." This allows time for the District to pursue solutions to keep the housing affordable. Either by locating a purchaser who will renew the subsidy contract or work with the current owner obtain rehabilitation funding with a subsidy contract renewal. The District has the first right to purchase Section 8 properties. The mayor can assign that right to a person with the capacity to purchase, rehabilitation and operate the housing unit and commits to affordable rents for 30 years. In areas where average apartment rents exceed fair market rents by at least 25%, property taxes may be abated for housing units serving low-income residents. For example, a 5-year extension of a subsidy contract qualifies for an abatement of 75% of the real property taxes for five years. A 10-year extension of a commitment to affordable housing garners developers 100% real property tax abatement for ten years.

- Creates the Targeted Historic Housing Tax Credit provides tax credits to homeowners in ten historic districts that substantially rehabilitate their historic homes. It is a credit against the city's income taxes equal to 20-50% of qualified rehabilitation expenditures (cap $25,000.00 in any 60–month period). The length of residency (more or less than five years) also impacts the percentage credit given. The credits are pre-approved on a first-come, first-served basis. The legislative cap is $1.25 million dollars. The cost of offering the tax credits is offset by the attraction of new households to the District, increasing income and sales tax revenues.

- Provision of income tax credits to very low-income, long-term property owners whose property taxes are rapidly escalating (at a rate faster than 5% per year). Homeowners must have lived in the property for at least 10 years and earn less than 60% of the area median income. The District of Columbia Code (section 47-1806.06) already provides incomes tax credits for households with incomes less than $20,000.00 per year, elderly, blind and disabled residents.

- Modification of the Housing Production Trust Fund. Dedicates tax revenues to the Fund and expands that ways it can be used. The Fund had been inactive since its creation in 1988. Authorizes pre-development grants to non-profit housing developers. Designates new funding sources 1) 15% of the real estate transfer and recordation taxes to the Fund and 2) proceeds from sale of abandoned or deteriorated properties to the Fund. The trust fund is allocated in three equal parts to: preserve existing affordable housing, production of new affordable housing, and home purchase assistance.

- Tax abatements for new residential developments to encourage new housing construction. Eligible properties can receive 10-year tax abatements for the portion of the increase in property taxes resulting from the new construction. The tax abatements, which are based on the number of low to moderate-income units produced, reduce the amount by which a property's tax liability is increased between the base year and the current tax year. Developers are ineligible for this tax abatement is they receive benefits from the Tax Increment Financing Authority.

- Tax abatements for eligible homeowners in enterprise zones to homeowners that substantially rehabilitate (investment of $20,000.00 or more during a 24-month period) their single-family homes. The homeowners submit an application requesting certification of the rehabilitation and the abatement to the mayor's office for consideration. The cap for this abatement is $1 million dollars. If granted the abatement is 100% for the first three years the rehabilitation is completed, 75% abatement for the fourth year post-rehabilitation, 50% during the fifth year and 25% the sixth and final year the abatement is in effect.

- Modifications to the Homestead Housing Preservation Act of 1986, which expands the ability of the Housing Preservation Program to return abandoned housing to productive use. It privatizes title services previously performed by the District. It permits private developers to purchase multi-family buildings to develop as rental properties and allows the District government to accept unsolicited proposals for homes that were not sold through the Homestead Lottery. The modifications created the Homestead Repayment Fund to recycle money received from the program's property sales back through the program. It also expands the ways properties can enter and be disposed of through the Homestead Program and establishes several time limits (rehabilitation and residency requirements).

- Modifications to quick take by amending the Abatement and Condemnation of Nuisance Properties Omnibus Amendment Act of 2000. It does not create a new condemnation process; it references existing statutes and procedures that have been constitutionally tested. The condemnation process could apply to both deteriorated and abandoned properties based on the objective criteria clearly defined in the Amendment Act of 2000. This proposal gives the District more flexibility to dispose of property be selling, transferring or disposing of property for redevelopment after a public hearing has been held on the terms and conditions of the disposition. The mayor may sell the property at or below fair market value to a public or private entity, including adjoining property owners. The mayor may also dispose of the property through the Homestead Housing Preservation Program. The proposal eliminated the whole block remedy because it is unnecessary in the District.

- Allows the District to match funds for the Employer-Assisted Home Purchase Program. Employers earn tax credits by providing down payment assistance or other acquisition costs to eligible employees. The eligibility requirements include that the person has worked for their employer for at least 12 months and did not previously own property as a principal place of residence in the District. Employees receiving assistance must certify their intention to live in the home for at least five years. Employers are permitted to set a maximum income limit. The maximum tax credit is $2,500.00 per employee.

- Establishes a Homeownership Counseling Program that can be operated by either the government or non-government entities for the following information to be available over the Internet and at all public libraries:
    - Credit ratings, credit management and credit counseling
    - Predatory lending practices
    - How to purchase a home
    - Financial resources available to first time homebuyers
    - Financial planning after purchasing a home
    - All federal and local tax provisions and public and private programs that provide homeownership assistance.